

Message Text

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PAGE 01 OTTAWA 01865 102239Z

62

ACTION EUR-12

INFO OCT-01 ISO-00 PM-04 L-03 CIAE-00 INR-07 NSAE-00 EB-07

COME-00 OMB-01 TRSE-00 FRB-03 XMB-02 AID-05 INRE-00

SSO-00 NSCE-00 SS-15 NSC-05 SP-02 /067 W

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O 102251Z MAY 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 9746

INFO SECDEF IMMEDIATE

CJCS

DIA IMMEDIATE

C O N F I D E N T I A L OTTAWA 1865

E.O. 11652: GDS

TAGS: EGEN, EFIN, PFOR, US, CA

SUBJECT: LRPA FINANCING

REF: OTTAWA 1843

1. DEFENSE DEPUTY MINISTER NIXON TOLD DCM ON MAY 10 THAT HE IS QUOTE VERY CONCERNED UNQUOTE BY TURN OF EVENTS IN FINANCING LRPA CONTRACT. HE STATED THAT GOC KNEW WHEN CONTRACT WAS PUT IN ESKROW THAT SOME QUOTE FINE TUNING UNQUOTE WOULD BE NECESSARY, BUT (IN HIS VIEW) BANKS ARE NOW RAISING FUNDAMENTAL ISSUES THAT HE THOUGHT HAD ALREADY BEEN DECIDED. IN EFFECT, BANKS ARE LOOKING FOR ASSURANCES WHICH WOULD MAKE CONTRACT ULTRA VIRES FOR GOC. AS OF MID AFTERNOON MAY 10, HE WAS AWAITING 38 PAGE DOCUMENT FROM THE BANKS WHICH WOULD SET FORTH THEIR POSITION.

2. NIXON SAID GOC DOES NOT KNOW IF THESE 11TH HOUR PROBLEMS MEAN THAT BANKS ARE HAVING SECOND THOUGHTS ABOUT FINANCING CONTRACT. NIXON TALKED TODAY WITH ONE OF THE KEY BANKERS WHO RATHER LAMELY EXPLAINED THAT THE BANKS HAVE TO LISTEN TO THEIR LAWYERS. NIXON SAYS HE RESPONDED THAT THE TIME COMES WHEN A BUSI-
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PAGE 02 OTTAWA 01865 102239Z

NESS--NOT A LEGAL--DECISION MUST BE MADE.

3. NIXON SAID THE BANKERS ARE CURRENTLY BOGLED BY THE 5-YEAR TERM OF THE CONTRACT, SINCE THEY RECOGNIZE THAT GOC (LIKE THE USG) MUST RELY UPON ANNUAL APPROPRIATIONS. NIXON SAID HE HAS REJECTED THIS POINT OUT OF HAND BECAUSE GOC OBVIOUSLY WILL NOT DESTROY ITS FISCAL INTEGRITY AND RELIABILITY BY WELSHING ON A MAJOR CONTRACT (OR A MINOR ONE FOR THAT MATTER).

4. NIXON SAID GOC SHOULD KNOW BY SOMETIME MAY 11 WHETHER OR NOT CURRENT ISSUES BETWEEN GOC AND BANK CONSORTIUM CAN BE RESOLVED.
ENDERS

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